Farm Service Agency

SERVING AMERICA'S FARMERS AND RANCHERS

THIS GRASSROOTS APPROACH GIVES FARMERS AND RANCHERS A MUCH-NEEDED SAY IN HOW FEDERAL ACTIONS AFFECT THEIR COMMUNITIES AND THEIR INDIVIDUAL OPERATIONS.

WHAT IS THE FARM SERVICE AGENCY?

Stabilizing farm income, helping farmers conserve land and water resources, providing credit to new or disadvantaged farmers and ranchers, and helping farm operations recover from the effects of disaster are the missions of the U.S. Department of Agriculture's Farm Service Agency (FSA). The agency's commodity operations office handles the acquisition, procurement, storage, and distribution of certain commodities.

FSA maintains its headquarters in Washington, D.C. Offices are located in each State, usually in a State capital or near a State land-grant university, and in most agriculturally productive counties.

Although the public may obtain general information from the headquarters and State offices, the county offices administer all programs. Those persons needing forms and program applications should visit the office in the county where their land is located. Some forms are available on FSA's web site at: www.fsa.usda.gov

FSA's relationship with farmers and ranchers goes back to the 1930s. At that time, Congress set up a unique system under which Federal farm programs were to be administered locally. Farmers and ranchers who are eligible to participate in these programs elect a three- to five-person county committee, which reviews county office operations and makes some of the decisions on how to apply the programs. This grassroots approach gives farmers and ranchers a much-needed say in how Federal actions affect their communities and their individual operations. After more than 60 years, it remains a cornerstone of FSA's efforts to preserve and promote American agriculture.

1996 FARM BILL

The most recent farm bill, which became law on April 4, 1996, significantly changed U.S. agricultural policy. The bill removed the link between income support payments, farm prices, and production by providing for seven annual fixed but declining "production flexibility contract payments." Participating producers may receive Government payments that are independent of farm prices or production. This is in contrast to the past, when deficiency payments were inversely related to farm prices and producers were, in most cases, required to plant a crop in order to be eligible for program benefits.

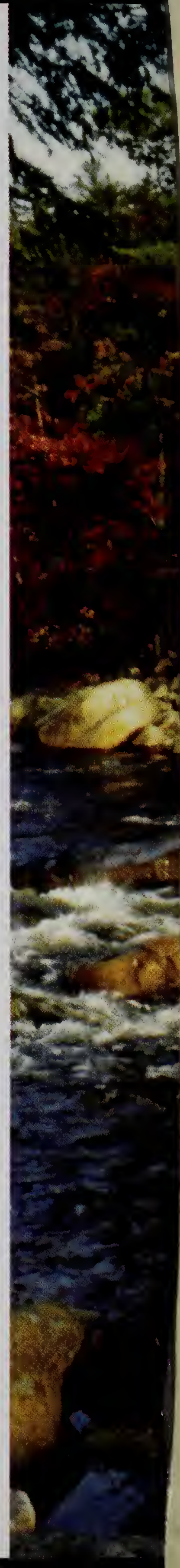
TRANSITION PAYMENTS

For decades, USDA made deficiency payments to producers of wheat, feed grains, cotton, and rice to make up the differences between target prices and seesawing market prices. The 1996 farm bill capped spending for the first time, guaranteeing farmers and ranchers a series of shrinking "transition payments" based on past subsidies, through fiscal year 2002.

At the same time, the Federal Government no longer requires land to be idled or denies payments if producers switch from their historically grown crop.

CONTRACT REQUIRED

To receive payments and loans on program commodities, producers must have entered into a production flexibility contract. That contract requires participating producers to comply with existing conservation plans for the farm, wetland provisions, and planting flexibility provisions, as well as to keep the land in agriculture-related uses. Farmers and ranchers who entered into a contract also are eligible for marketing assistance loans at FSA



1996 FARM BILL

The most recent farm bill, which became law on April 4, 1996, significantly changed U.S. agricultural policy. The bill removed the link between income support payments, farm prices, and production by providing for seven annual fixed but declining "production flexibility contract payments." Participating producers may receive Government payments that are independent of farm prices or production. This is in contrast to the past, when deficiency payments were inversely related to farm prices and producers were, in most cases, required to plant a crop in order to be eligible for program benefits.

TRANSITION PAYMENTS

For decades, USDA made deficiency payments to producers of wheat, feed grains, cotton, and rice to make up the differences between target prices and seesawing market prices. The 1996 farm bill capped spending for the first time, guaranteeing farmers and ranchers a series of shrinking "transition payments" based on past subsidies, through fiscal year 2002.

At the same time, the Federal Government no longer requires land to be idled or denies payments if producers switch from their historically grown crop.

CONTRACT REQUIRED

To receive payments and loans on program commodities, producers must have entered into a production flexibility contract. That contract requires participating producers to comply with existing conservation plans for the farm, wetland provisions, and planting flexibility provisions, as well as to keep the land in agriculture-related uses. Farmers and ranchers who entered into a contract also are eligible for marketing assistance loans at FSA

county offices. The 1996 farm bill required USDA to hold a one-time signup in 1996. This was the only opportunity for producers to enroll, and those who failed to do so are not eligible at a later date. There will be no additional signups except for land coming out of the Conservation Reserve Program.

COMMODITY PROGRAMS

FSA administers commodity loan programs for wheat, rice, corn, grain sorghum, barley, oats, oilseeds, tobacco, peanuts, upland and extra-long-staple cotton, and sugar.

The Agency provides the operating personnel for the Commodity Credit Corporation (CCC), which provides short-term loans, with the actual commodity used as collateral. This provides producers with interim financing and the orderly distribution of the farm commodities throughout the year, as well as during times of surplus and scarcity.

Instead of immediately selling the crop after harvest, a farmer or rancher who grows one or more of most field crops can store the produce and take out a "nonrecourse" loan for its value, pledging the crop itself as collateral. Nonrecourse means that the producer can discharge debts in full by forfeiting, or delivering, the commodity to the Government.

The nonrecourse loan allows producers to enjoy sufficient cash-flow to pay their bills and other financial commitments, without having to sell crops at a time of year when prices tend to be at their lowest. Later, when market conditions are more favorable, farmers and ranchers can sell crops and repay the loan with the proceeds. Or, if the prevailing price of the crop remains below the loan level set by USDA, producers can keep loan proceeds and give the crop to the CCC instead.

CCC loan rates are designed to keep crops competitive in the marketplace. A producer must have entered into a production flexibility contract to be eligible for nonrecourse marketing assistance loans for wheat, feed grains, rice, and upland cotton. Any production of a contract commodity from a farm entered into a production flexibility contract is eligible for loans.

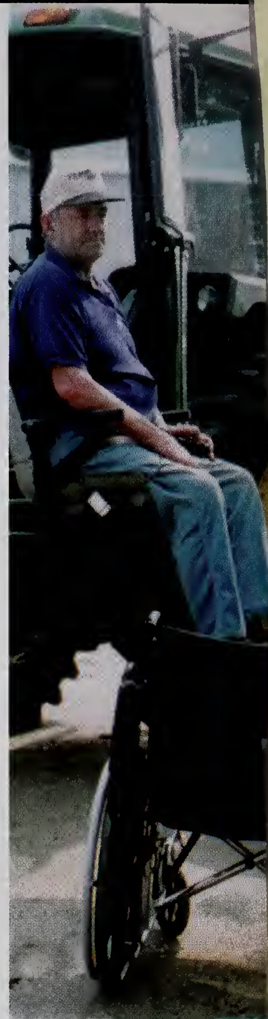
Under certain circumstances, these loans may be repaid by a producer at less than principal plus accrued interest and other charges, with repayment of some portion of the relevant interest and principal being waived. In lieu of securing a loan from CCC, a producer may be eligible for a loan deficiency payment (LDP).

Market loan repayment and LDP provisions are intended to prevent delivery of loan collateral to CCC. In so doing, these provisions considerably reduce the Federal Government's acquisition of stocks that might otherwise occur. Such stocks tend to make U.S.-produced commodities less competitive in world markets and may impose a significant taxpayer burden in the form of storage costs.

There are several eligibility requirements for marketing assistance loans and LDPs. Local FSA offices have more detailed information.

Nonrecourse loans are also available for oilseeds, tobacco, peanuts, extra-long-staple cotton, raw cane sugar, and refined beet sugar, regardless of whether the producer has entered into a production flexibility contract. Price support for the marketing quota crops – tobacco and peanuts – is made available through producer loan associations. By law, these programs must operate at no-net-cost to the U.S. Treasury, and no-net-cost and marketing assessments are applied to both producers and purchasers. If the tariff rate quota (TRQ) on imported sugar exceeds 1.5 million

tons, sugar loans are nonrecourse. If the TRQ is less than that amount, sugar loans are recourse, which means borrowers cannot discharge their debts in full by simply forfeiting the commodity to the Government.



COMMODITY PURCHASE PROGRAMS

Forfeitures under nonrecourse commodity loan programs are not the only means by which CCC acquires inventory. Under the dairy price support program, CCC buys surplus butter, cheese, and nonfat dry milk from processors at announced prices to support the price of milk. These purchases help maintain market prices at the legislated support level.

CCC can store purchased food in over 10,000 commercial warehouses across the Nation approved for this purpose. However, commodity inventories are not simply kept in storage. FSA employees work to return stored commodities to private trade channels. At FSA's Kansas City Commodity Office in Kansas City, Missouri, merchandisers regularly sell and swap CCC inventories, using commercial telecommunications trading networks.

Beyond the marketplace, CCC commodities fill the need for hunger relief both in the United States and in foreign countries. FSA employees work closely with USDA's Food and Nutrition Service to purchase and deliver foods for the national school lunch and other domestic feeding programs. And, through donations to "Food for Peace" and programs administered by voluntary organizations, these U.S. farm products and foods help USDA fight hunger worldwide.

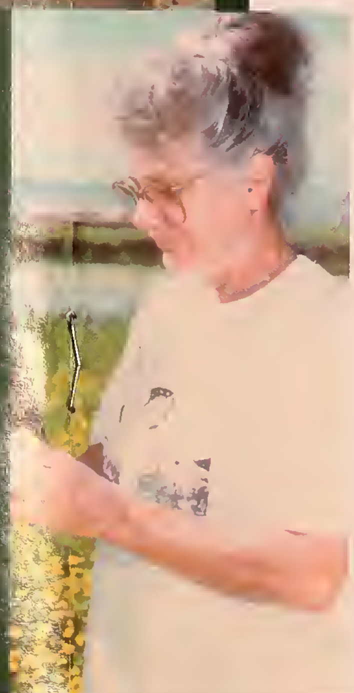
tons, sugar loans are nonrecourse. If the TRQ is less than that amount, sugar loans are recourse, which means borrowers cannot discharge their debts in full by simply forfeiting the commodity to the Government.

COMMODITY PURCHASE PROGRAMS

Forfeitures under nonrecourse commodity loan programs are not the only means by which CCC acquires inventory. Under the dairy price support program, CCC buys surplus butter, cheese, and nonfat dry milk from processors at announced prices to support the price of milk. These purchases help maintain market prices at the legislated support level.

CCC can store purchased food in over 10,000 commercial warehouses across the Nation approved for this purpose. However, commodity inventories are not simply kept in storage. FSA employees work to return stored commodities to private trade channels. At FSA's Kansas City Commodity Office in Kansas City, Missouri, merchandisers regularly sell and swap CCC inventories, using commercial telecommunications trading networks.

Beyond the marketplace, CCC commodities fill the need for hunger relief both in the United States and in foreign countries. FSA employees work closely with USDA's Food and Nutrition Service to purchase and deliver foods for the national school lunch and other domestic feeding programs. And, through donations to "Food for Peace" and programs administered by voluntary organizations, these U.S. farm products and foods help USDA fight hunger worldwide.



NONINSURED CROP DISASTER ASSISTANCE PROGRAM (NAP)

The NAP provides crop loss protection for growers of many crops for which Federal crop insurance is not available.

Eligible crops are commercial crops grown for food and fiber. Floriculture, ornamental nursery products, Christmas tree crops, turfgrass sod, seed crops, aquaculture (including ornamental fish such as gold fish), and industrial crops are also included.

Also, losses resulting from natural disasters not covered by the crop insurance policy may be eligible for NAP assistance. NAP does not include trees grown for wood, paper, or pulp products.

Unlike other disaster assistance programs, to be eligible for NAP, producers must file an acreage report and a production report with the local FSA office prior to the crop reporting date. Otherwise, producers may be ineligible for NAP assistance.

OTHER EMERGENCY ASSISTANCE

In the aftermath of a natural disaster, FSA makes available a variety of emergency assistance programs to farmers and ranchers in counties that have been designated (by the Secretary of Agriculture) or declared (by the U.S. President) as disaster areas.

Emergency loans are available to eligible producers who suffer qualifying losses as a result of a natural disaster. And, FSA can share the cost of some emergency conservation practices to help rehabilitate farmland damaged by a natural disaster.

FSA offers direct and guaranteed farm ownership and operating loan programs to farmers and ranchers who are temporarily unable to obtain private, commercial credit. Often, these are beginning producers who can't qualify for conventional loans because they have insufficient net worth. The Agency also helps established farmers and ranchers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming or ranching operations.

Under the guaranteed loan program, the Agency guarantees loans made by conventional agricultural lenders for up to 90 or 95 percent of principal. The lender may sell the loan to a third party; however, the lender is always responsible for servicing the loan. All loans must meet certain qualifying criteria to be eligible for guarantees, and FSA has the right to monitor the lender's servicing activities. Producers interested in guaranteed loans must apply to a conventional lender, who then arranges for the guarantee.

For those unable to qualify for a guaranteed loan from a commercial lender, FSA also lends directly. Direct loans are made and serviced by FSA officials, who also provide borrowers with credit counseling and supervision by assessing and evaluating all aspects of the farming or ranching operation.

For example, the FSA official evaluates the adequacy of the real estate, facilities, machinery, equipment, financial and production management, and the producer's goals for the operation. Weaknesses in any phase of the operation are identified and prioritized, and the FSA official works one-on-one with the producer to develop a plan of supervision that will overcome the weaknesses and ultimately result in the producer's graduation to commercial credit. Funds for direct loans are limited, and applicants may have to wait

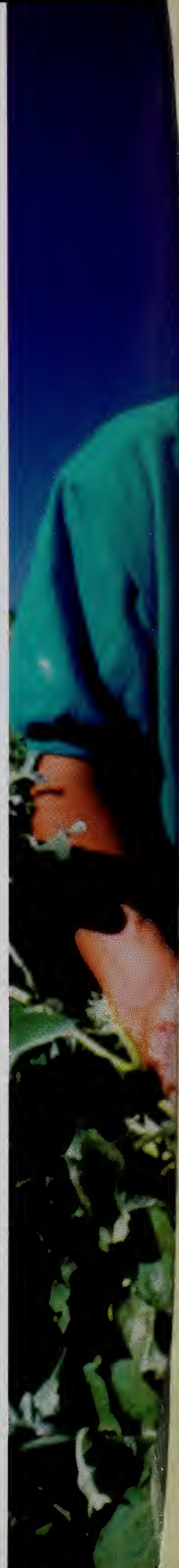
until funds become available. To qualify for a direct farm ownership or operating loan, the applicant must be able to show sufficient repayment ability and pledge enough collateral to fully secure the loan.

CONSERVATION PROGRAMS

The Conservation Reserve Program (CRP) protects our most fragile farmland by encouraging producers to stop growing crops on highly erodible and other environmentally sensitive acreage. In return for planting a protective cover of grass or trees on vulnerable property, the owner receives a rental payment each year of a multi-year contract. Cost-share payments are also available to help establish permanent areas of grass, legumes, trees, windbreaks, or plants that improve air and water quality, control soil erosion, and give shelter and food to wildlife.

The Conservation Reserve Enhancement Program (CREP) is an initiative established as part of the CRP. Under this program, USDA partners with States to meet specific conservation objectives. Like CRP, CREP contracts require a 10- to 15-year commitment to keeping lands out of agricultural production, ensuring lasting benefits.

FSA works with USDA's Natural Resources Conservation Service and other partner agencies to deliver other conservation programs, such as the Environmental Quality Incentives Program (EQIP), to farmers and ranchers. EQIP helps producers improve their property to protect the environment and conserve soil and water resources. Participants can take advantage of training in new conservation management practices, technical support, cost-share assistance, and incentive payments.



until funds become available. To qualify for a direct farm ownership or operating loan, the applicant must be able to show sufficient repayment ability and pledge enough collateral to fully secure the loan.

CONSERVATION PROGRAMS

The Conservation Reserve Program (CRP) protects our most fragile farmland by encouraging producers to stop growing crops on highly erodible and other environmentally sensitive acreage. In return for planting a protective cover of grass or trees on vulnerable property, the owner receives a rental payment each year of a multi-year contract. Cost-share payments are also available to help establish permanent areas of grass, legumes, trees, windbreaks, or plants that improve air and water quality, control soil erosion, and give shelter and food to wildlife.

The Conservation Reserve Enhancement Program (CREP) is an initiative established as part of the CRP. Under this program, USDA partners with States to meet specific conservation objectives. Like CRP, CREP contracts require a 10- to 15-year commitment to keeping lands out of agricultural production, ensuring lasting benefits.

FSA works with USDA's Natural Resources Conservation Service and other partner agencies to deliver other conservation programs, such as the Environmental Quality Incentives Program (EQIP), to farmers and ranchers. EQIP helps producers improve their property to protect the environment and conserve soil and water resources. Participants can take advantage of training in new conservation management practices, technical support, cost-share assistance, and incentive payments.

WHERE TO GO FOR MORE INFORMATION

Further information and applications for the programs described in this brochure are available at local FSA offices. These offices are usually listed in telephone directories under "U.S. Department of Agriculture, Farm Service Agency."

For information on commodity sales and purchases, contact:

USDA FSA Kansas City Commodity Office
6501 Beacon Ave.
Kansas City, MO 64114-4675
Telephone: (816) 926-6301

For general information about the agency and its programs, contact:

USDA FSA Public Affairs
1400 Independence Ave., S.W.
STOP 0506
Washington, DC 20250-0506
Telephone: (202) 720-5237

Information on FSA can also be found on the FSA home page at **www.fsa.usda.gov**

AERIAL PHOTOGRAPHS

FSA's aerial photographs of U.S. farmlands are used extensively by government and private organizations and the public. Order forms and an index are available from FSA county offices. For more information on photographic services, including high-altitude photography, contact:

FSA Aerial Photography Field Office
2222 West 2300 South
Salt Lake City, UT 84119-2020
Telephone: (801) 975-3500

The United States Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, sex, religion, age, disability, political beliefs, sexual orientation, or marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (202) 720-5964 (voice and TDD). USDA is an equal opportunity provider and employer.

PA-1660
Supersedes PA-1596, "Helping the Pieces Fit"
May 2000

FSA OFFERS DIRECT AND GUARANTEED FARM OWNERSHIP AND OPERATING LOAN PROGRAMS TO FARMERS WHO ARE TEMPORARILY UNABLE TO OBTAIN PRIVATE, COMMERCIAL CREDIT.